

The catching up process in CESEE countries

Gertude Tumpel-Gugerell

Institutional quality and sustainable economic convergence

7th ECB conference on central, eastern and south-eastern European (CESEE) countries

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European Central Bank

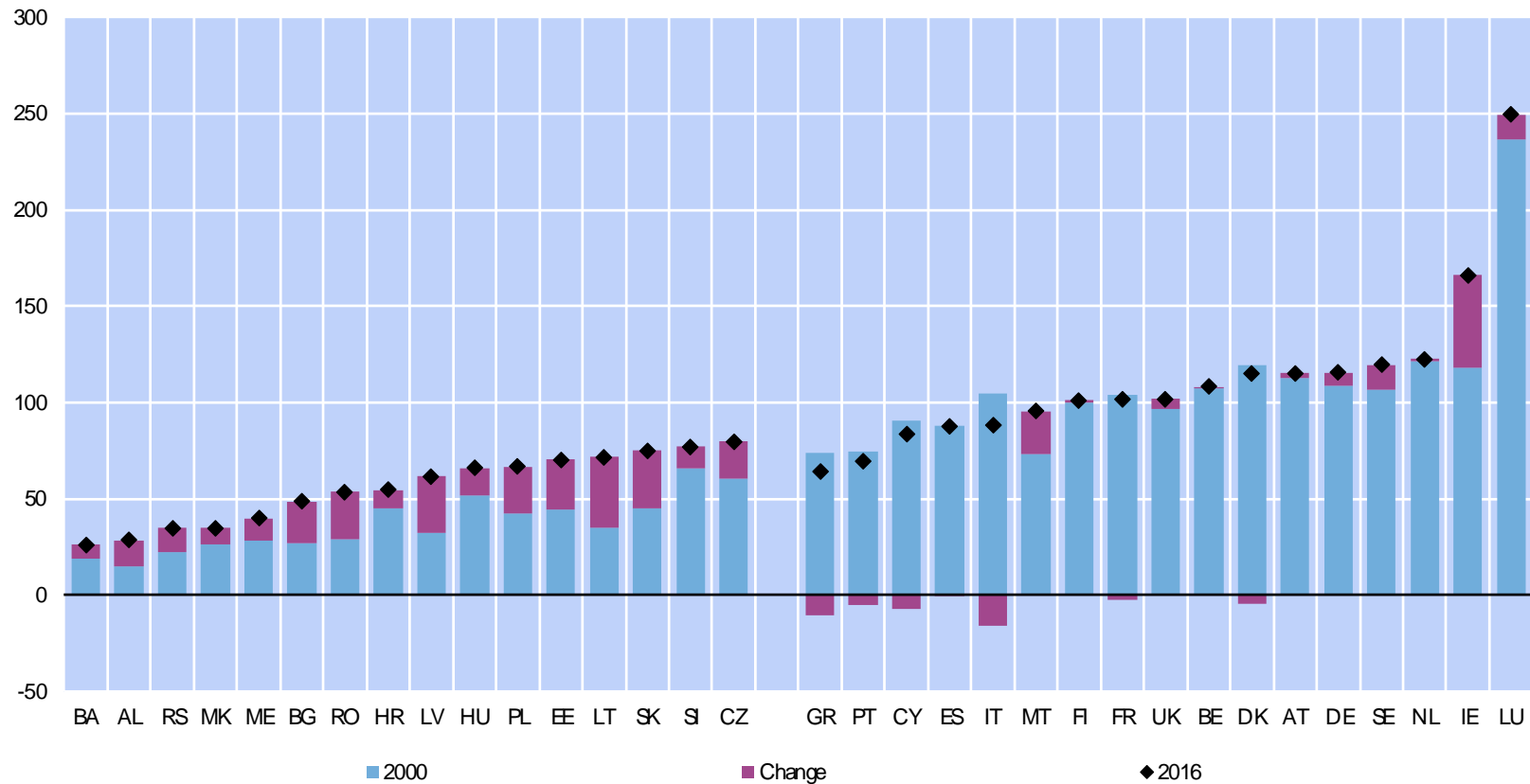
- Successful convergence and its foundations in the past
- Short outlook for future catching up
- Problem that need to be adressed
- Opportunities that need to be seized

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Successful convergence of CESEE...

Convergence of GDP per capita

at PPP, in % of EA-19



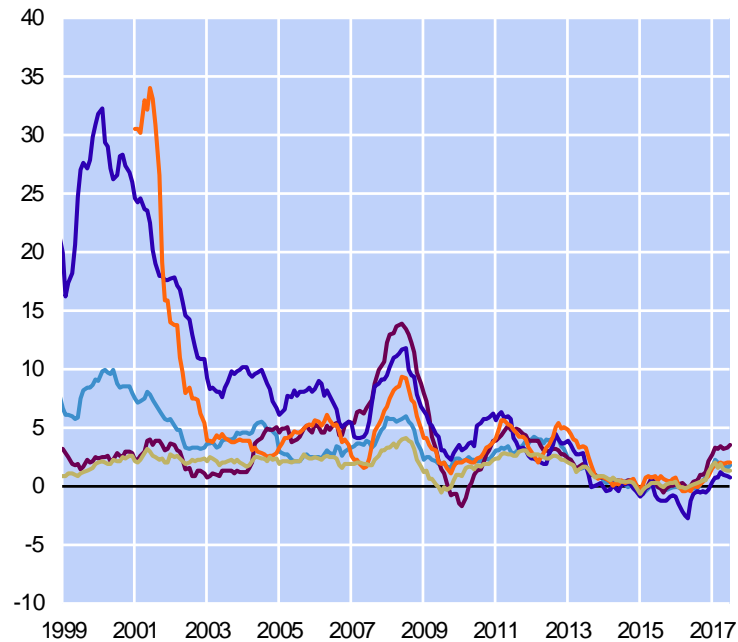
Source: IMF

...promoted by macro-stabilization

Nominal convergence

Inflation

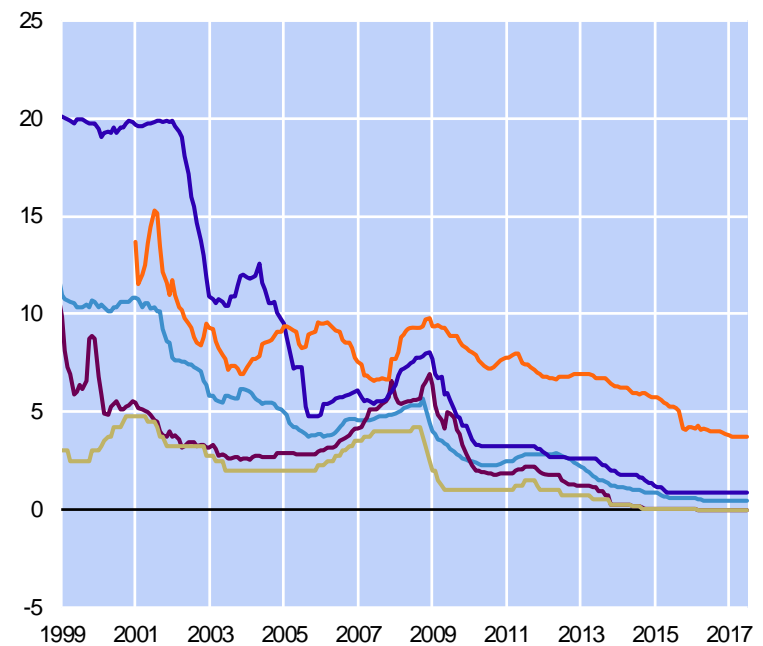
regional averages, in % year-on-year



— Central Europe — Baltics — BG, RO
— Western Balkans — EA19

Policy rates

regional averages, in % year-on-year



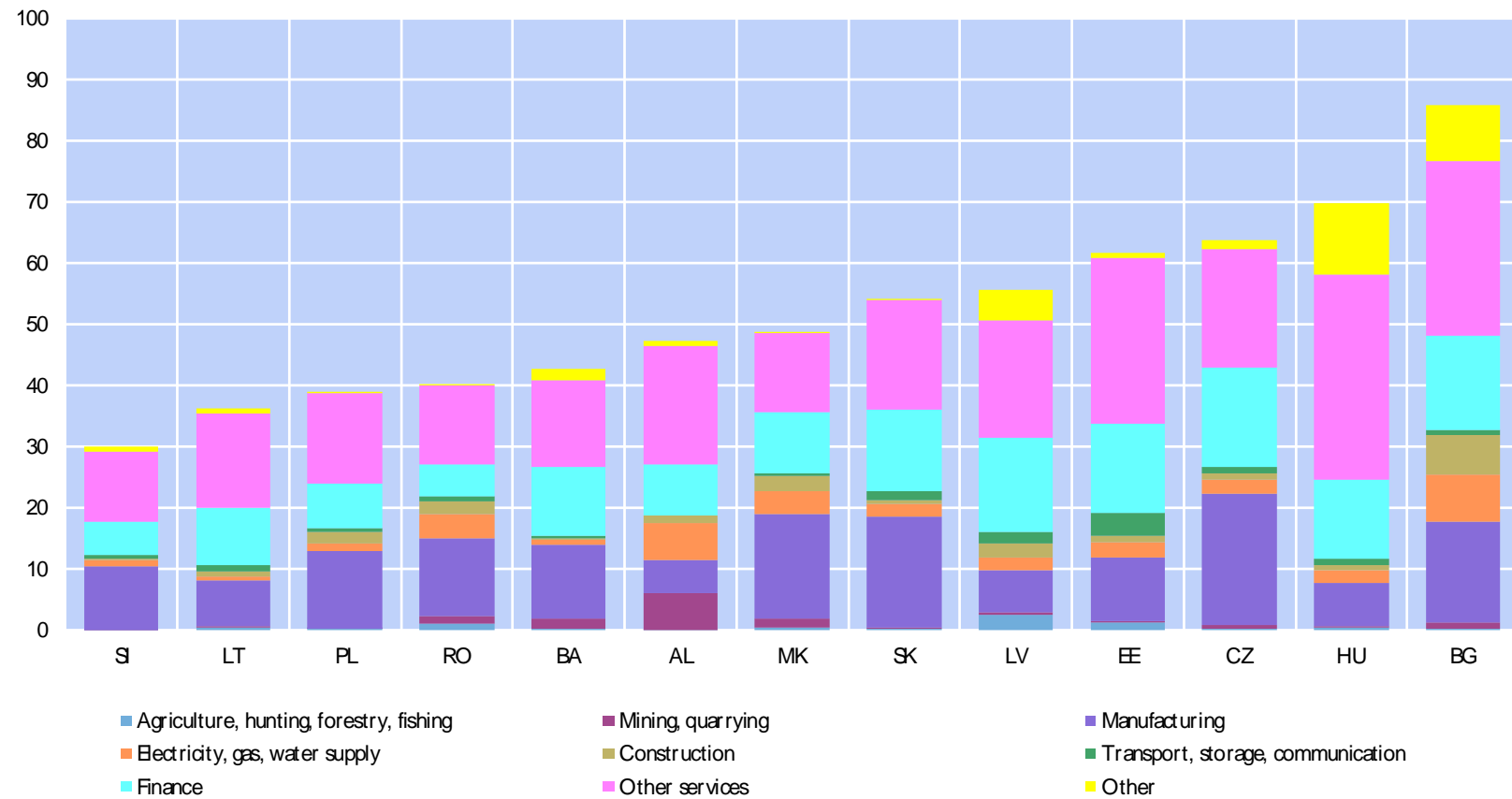
— Central Europe — Baltics — BG, RO
— Western Balkans — EA19

Source: Eurostat, Bloomberg, WIIW.

...deeper economic integration

FDI by economic sector

in % of GDP, 2015 of latest available



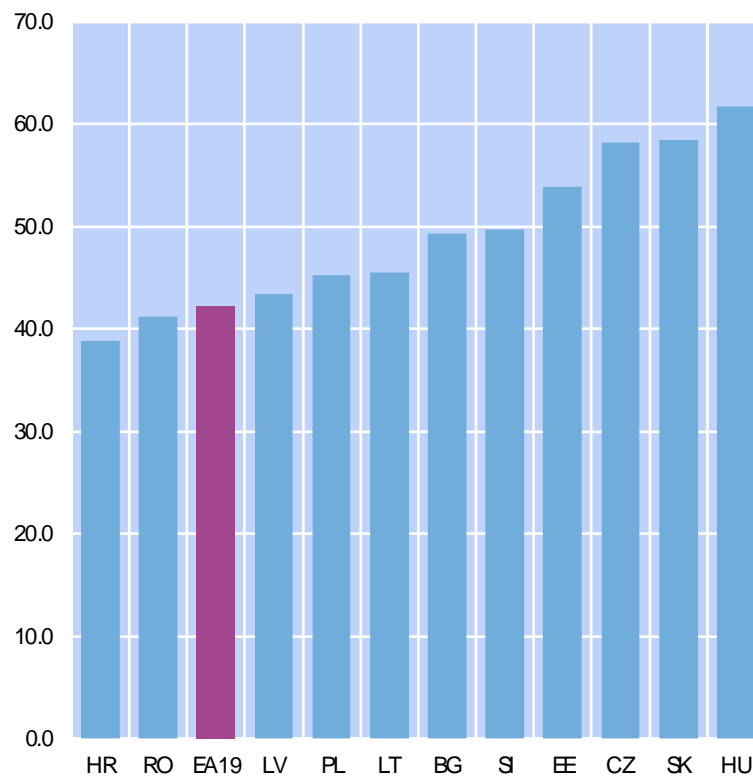
Source: WIIW.

...deeper economic integration (cont.)

Global value chains and comparative advantage

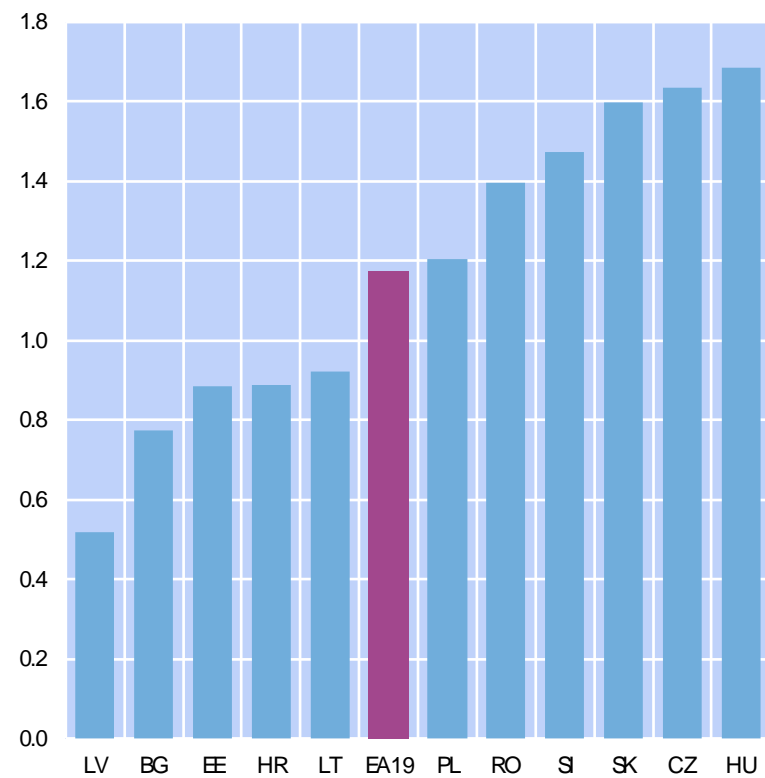
Participation in global value chains

in 2014, index from 0 (worst) to 100 (best)



Revealed comparative advantage in medium high-tech goods

in 2014, values above 1 indicate a comparative advantage

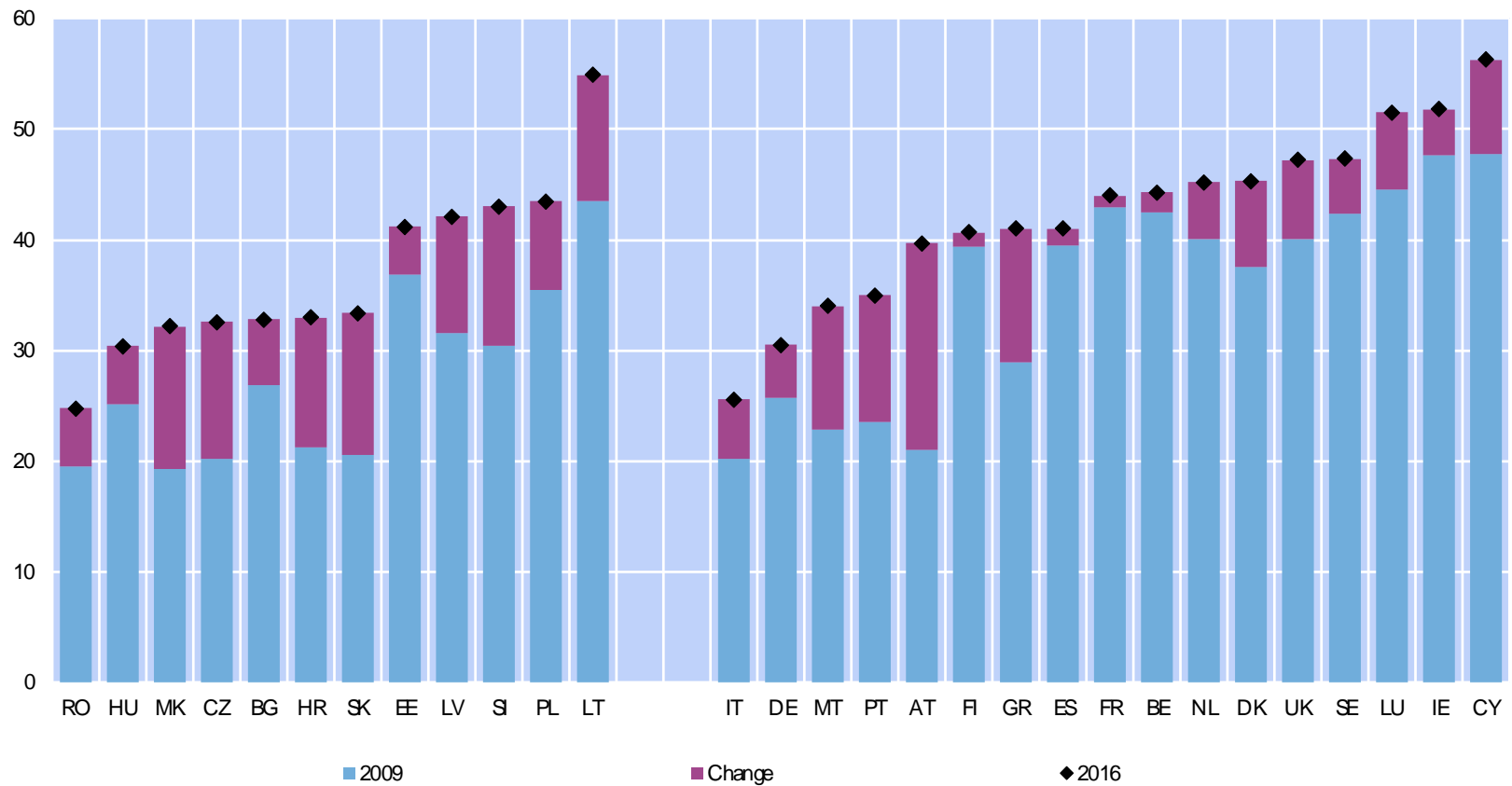


Source: ECB COMPNET.

...and a sound fundament of human capital

Population aged 25-34 having completed tertiary education

in % of total



Source: European innovation scoreboard.

...and institutional development

Governance indicators

Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)



Source: World Bank.

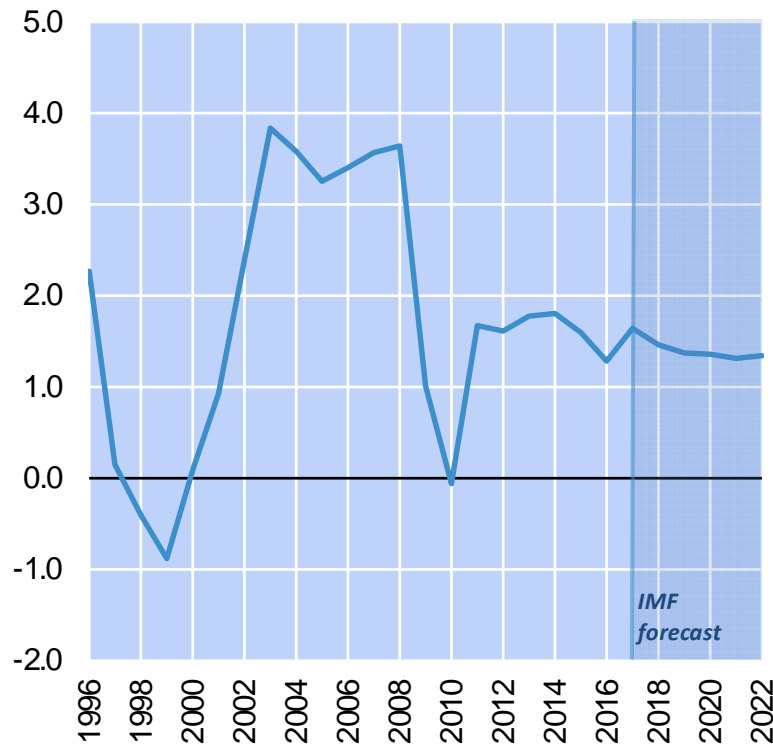
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Crisis only put a temporary brake on convergence

Convergence Between CESEE EU Member States and the Euro Area

Historic GDP growth differential

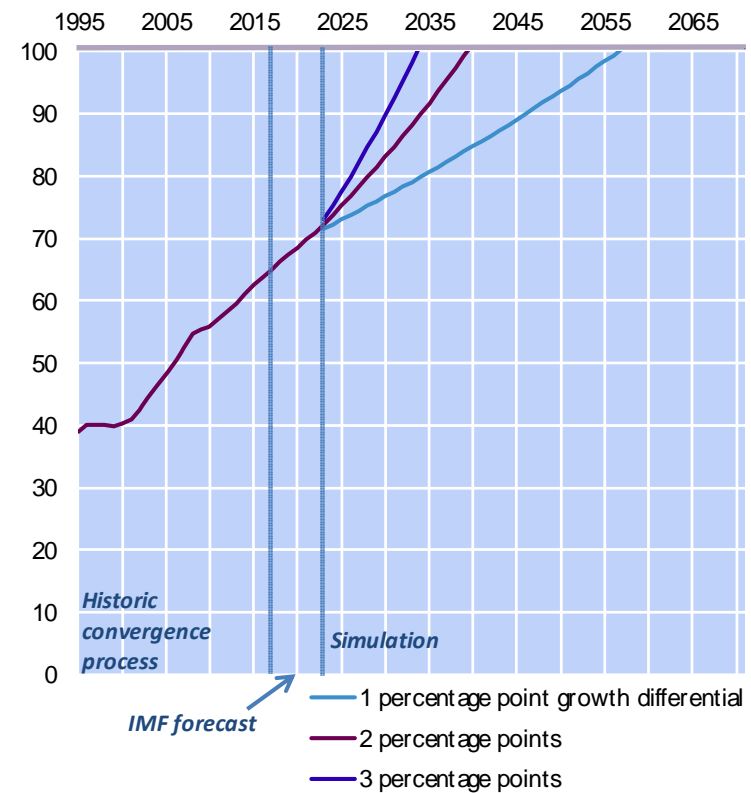
Year-on-year change in %



Sources: OeNB, IMF

Simulated convergence paths

per capita GDP at FFP in % of Euro area (EA-12)

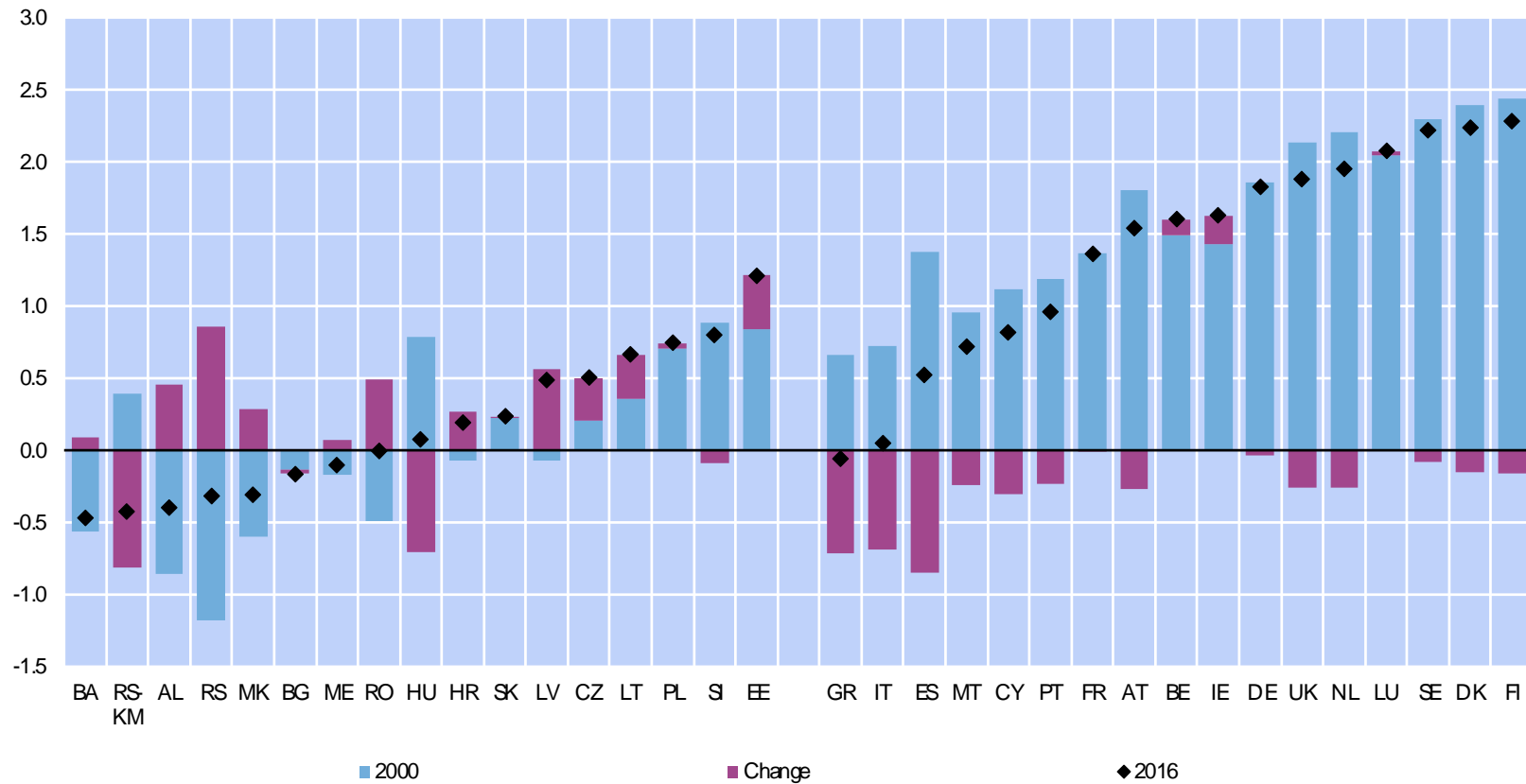


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Institutional gaps can explain differing country paths to a certain extent

Control of corruption

Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)



Source: World Bank.

Institutional gaps can explain differing country paths to a certain extent (cont.)

Government effectiveness

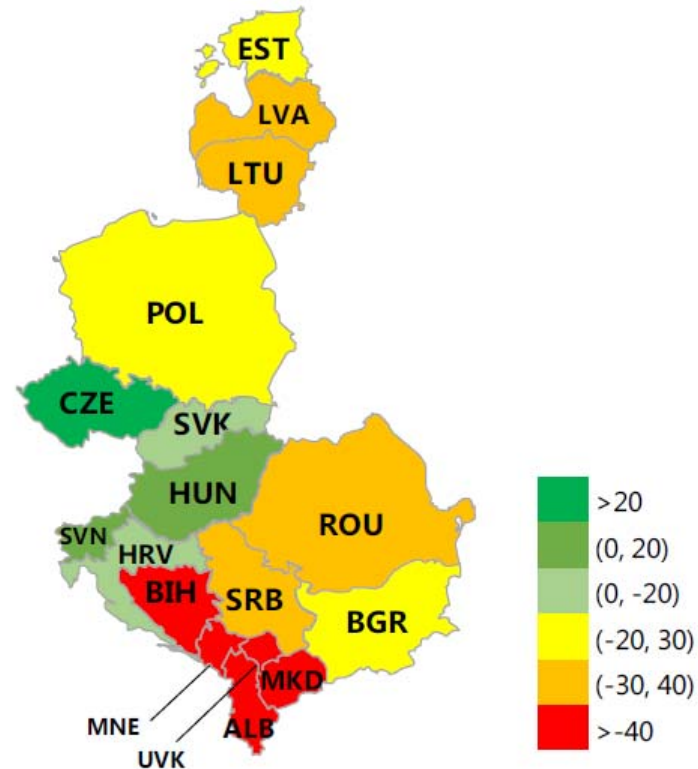
Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)



Source: World Bank.

Wide variation in infrastructure quality

Infrastructure Gap Index

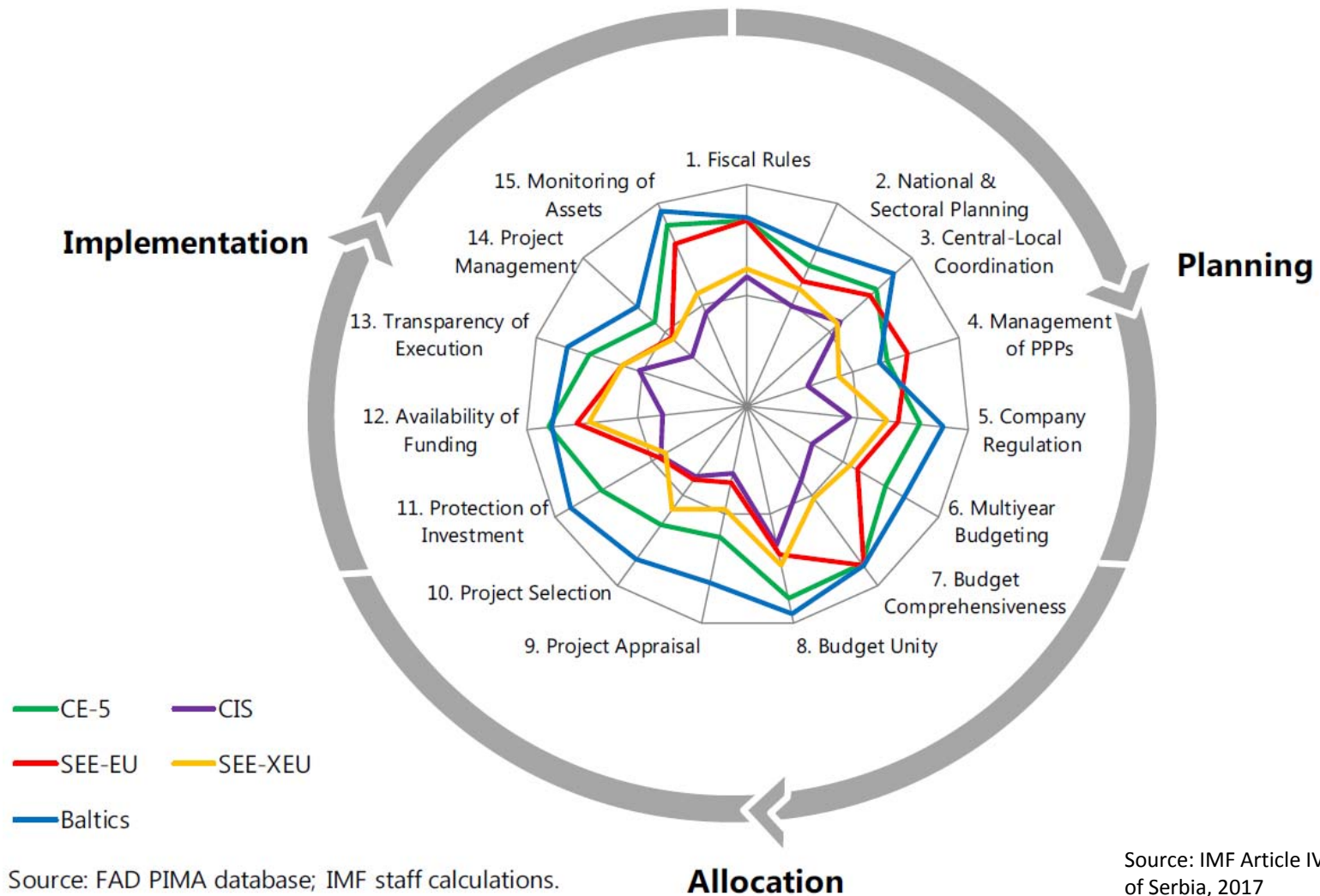


Sources: WDI, EIA, IRF, Eurostat, and IMF staff calculations.

Note: Infrastructure Gap Index calculates the gap between a country's infrastructure and that of an average EU member. In the following area's railway density, motorway density, installed capacity for power generation, phone lines and cellular subscriptions, broadband internet connections, and air transport passengers. The index value ranges between 50 to -65 with a value of zero reflecting EU-28 average.

Source: IMF Article IV Consultation of Serbia, 2017

Strength of Public Investment Management by Institution

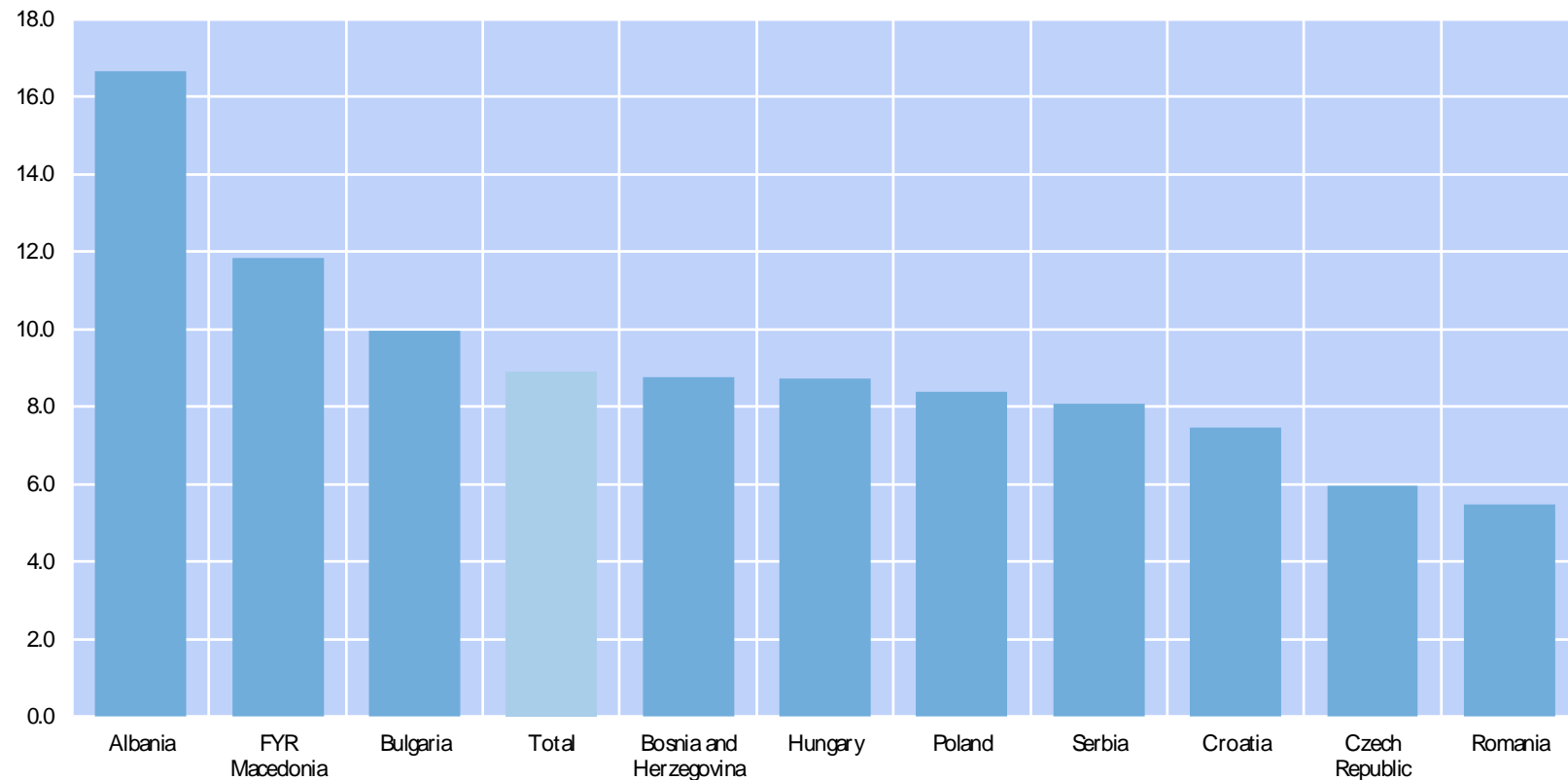


Source: IMF Article IV Consultation of Serbia, 2017

Emigration is still a topic, especially in countries with higher gaps in income and institutional development

Average migration intentions by country

Share of individuals with the intention to emigrate (in %)



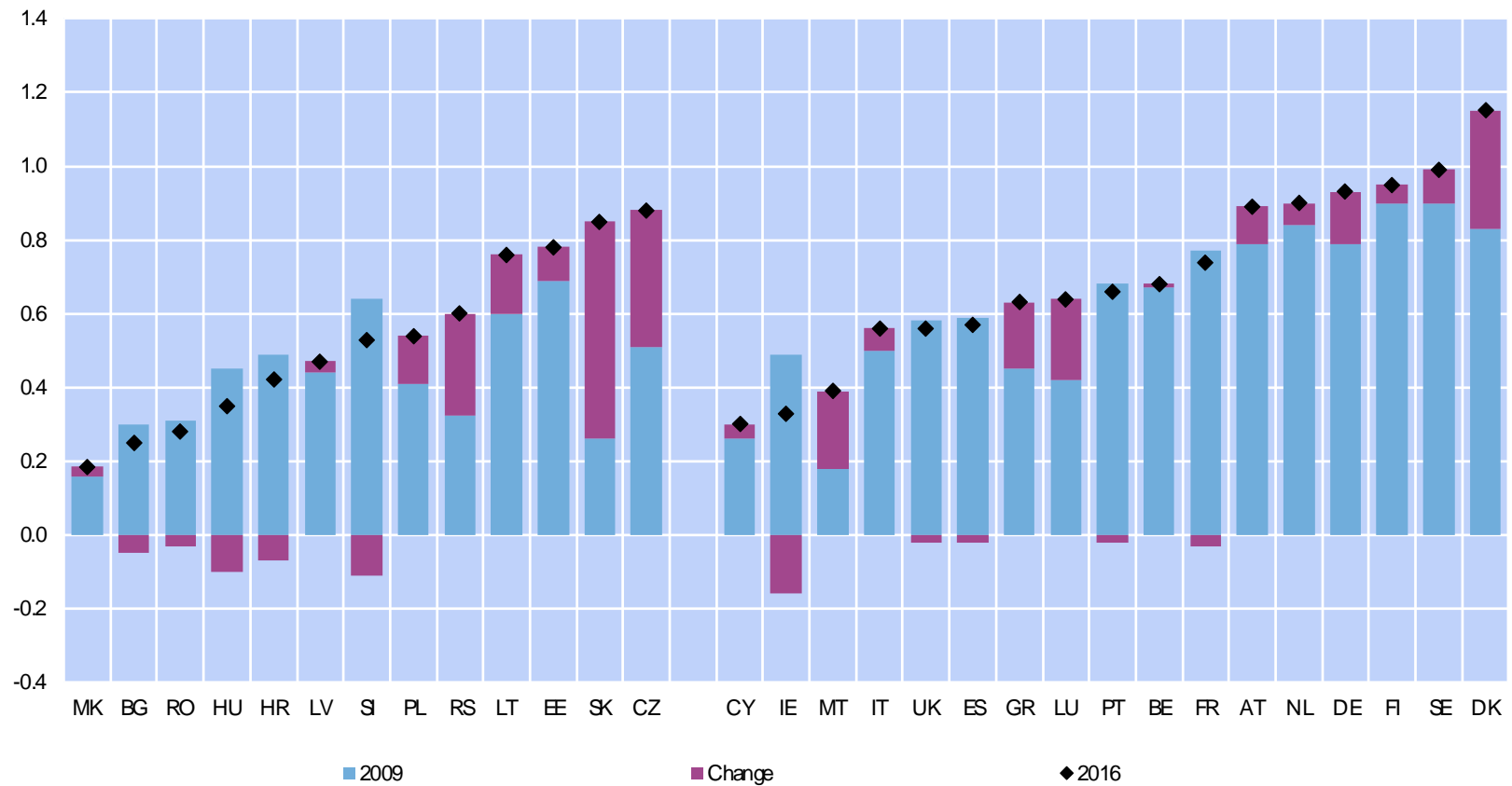
Source: OeNB Euro Survey (2014).

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Way forward: Innovation

R&D spending in the public sector

in % of GDP



Source: European innovation scoreboard.

Way forward: Innovation (cont.)

R&D spending in the private sector

in % of GDP

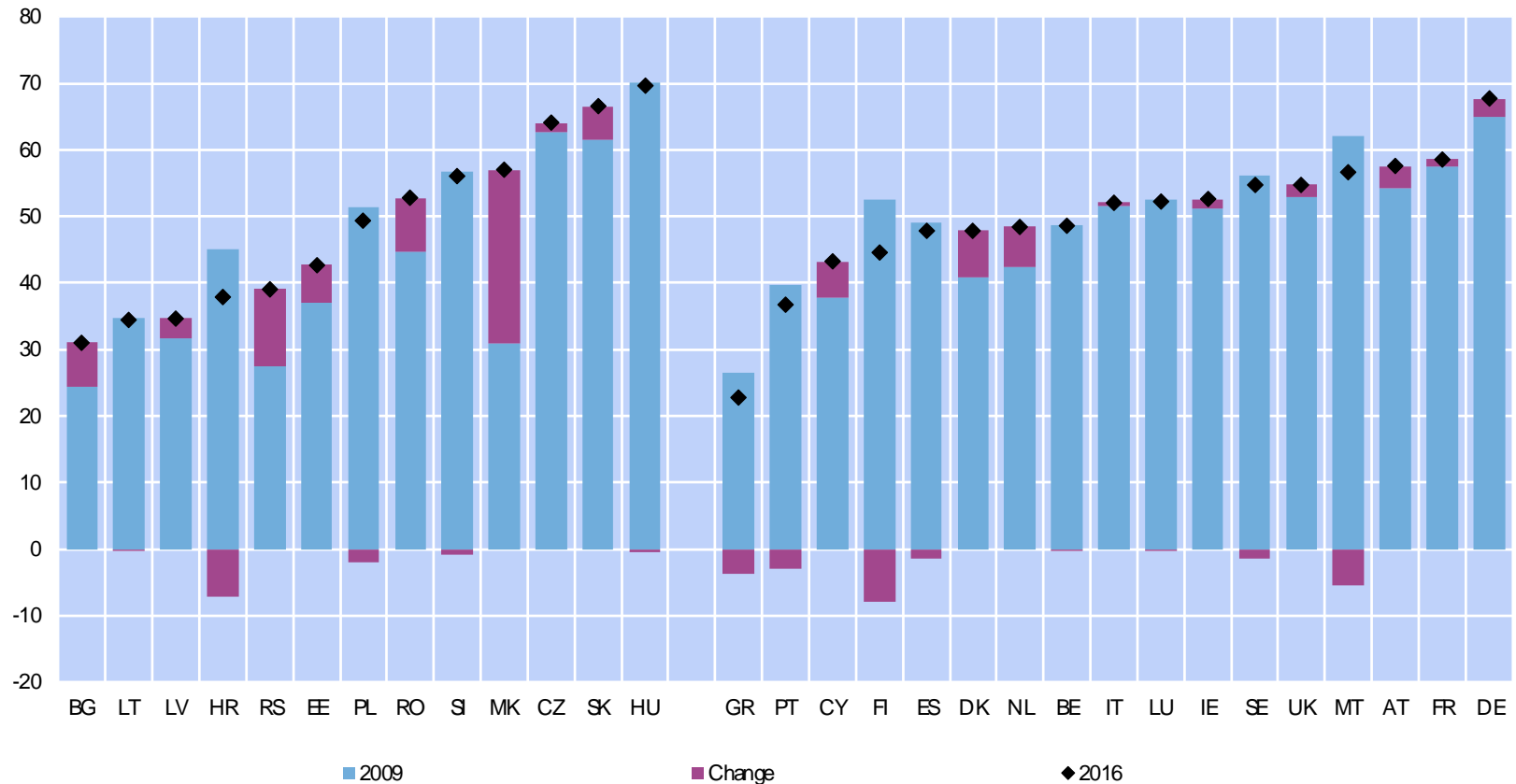


Source: European innovation scoreboard.

Way forward: Climbing up the technology ladder

Exports of medium and high technology products

in % of total exports

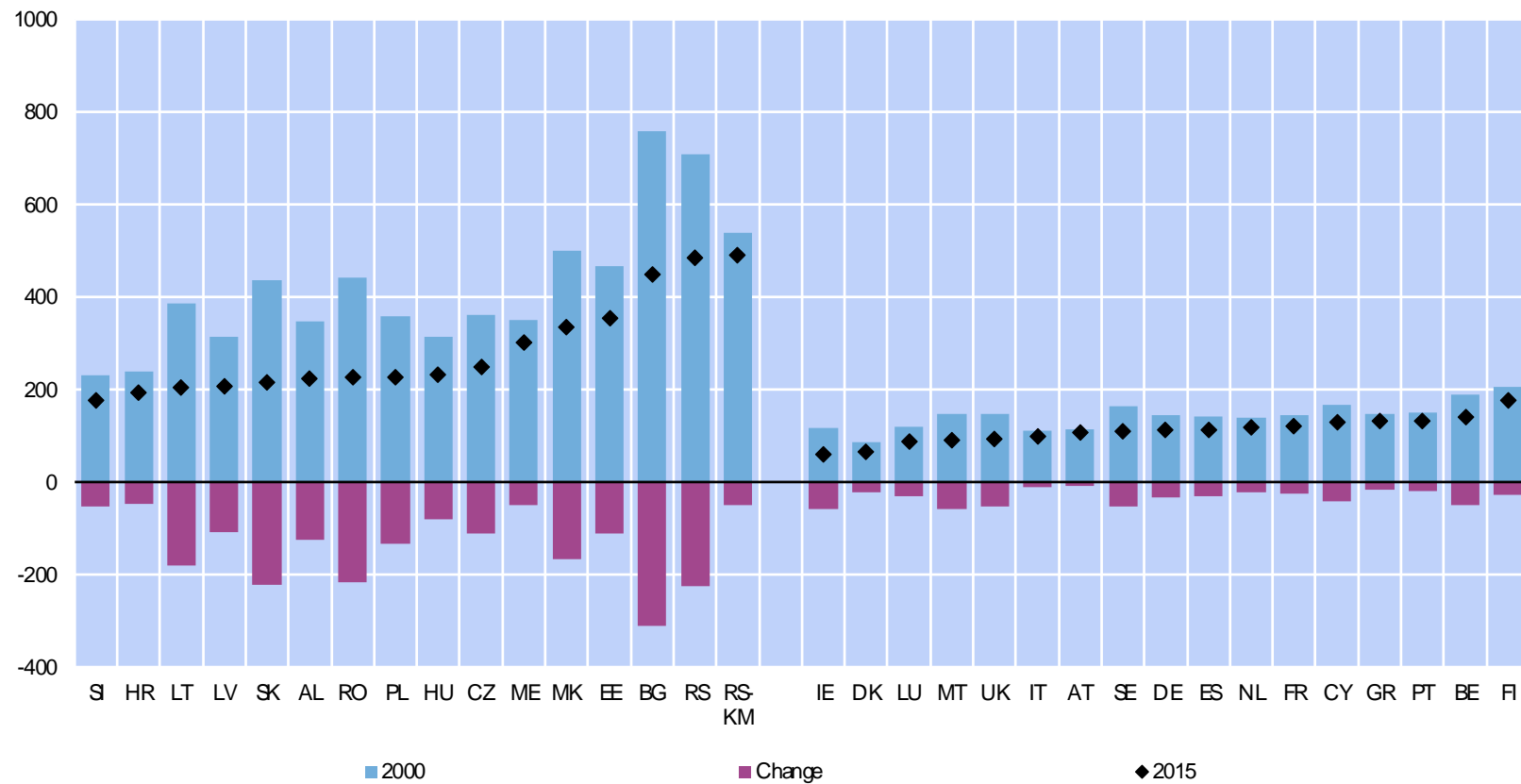


Source: European innovation scoreboard.

Way forward: Green economy

Energy efficiency

Gross inland consumption of energy divided by GDP (in kg of oil equivalent per 1 000 EUR)

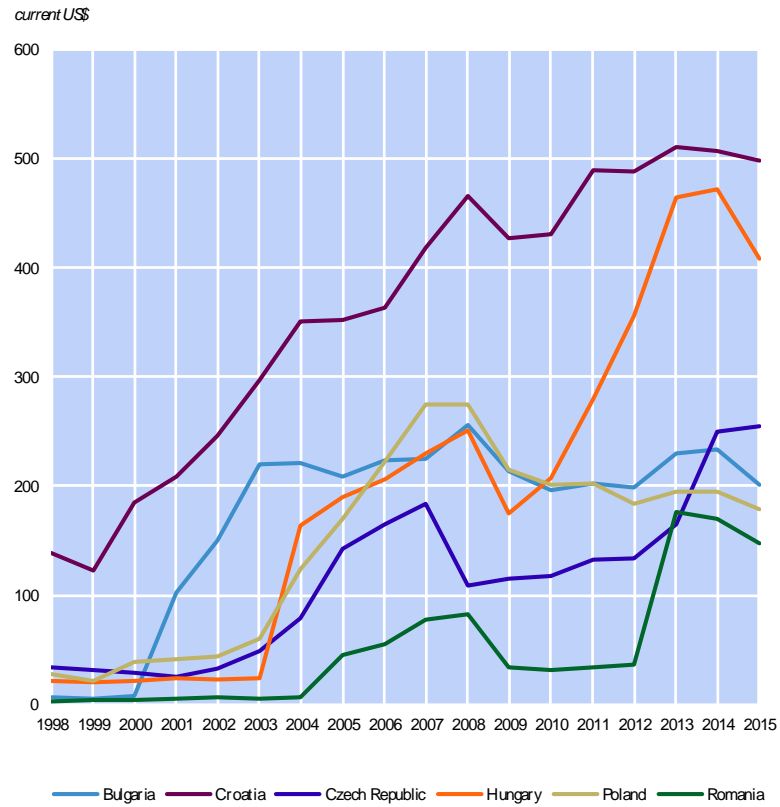


Source: Eurostat.

Back-up slides: Remittances

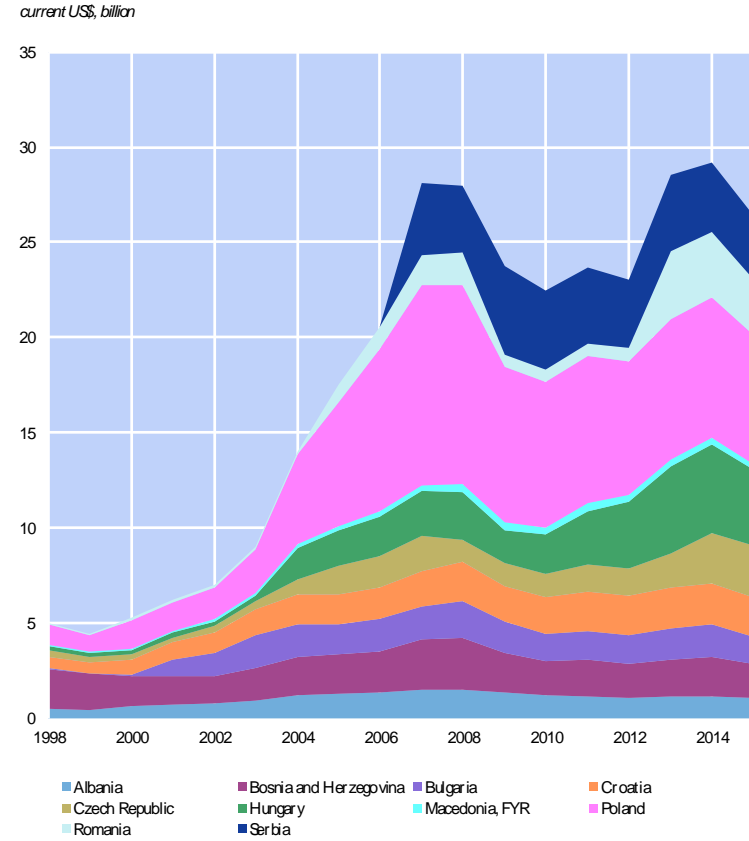
Inflow to CESEE

Remittances per capita, EU CESEE countries



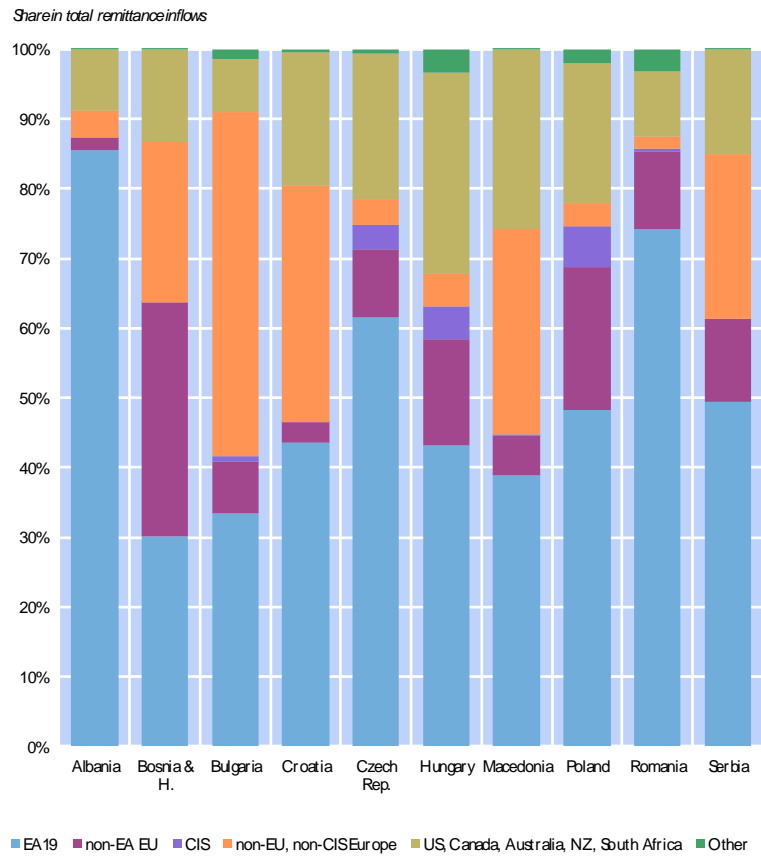
Source: WDI, World Bank.

Inflows of remittances to CESEE, by destination economy

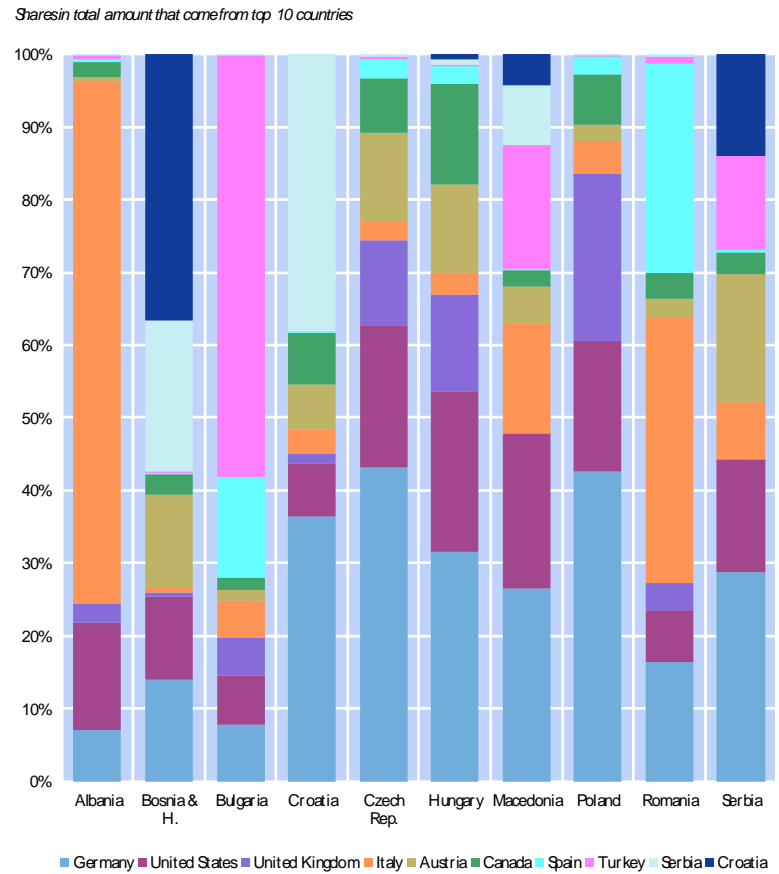


Main remittance sending countries

Sending regions of remittances



Sending countries of remittances: Top-10 remittance sending countries to CESEE



Source: *Bilateral Remittance Matrix 2015 (version Oct. 2016)*, World Bank